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ABSTRACT

The five most common pitfalls of money management in child care programs are described along with proposed remedies. These pitfalls involve: (1) failure to account for shortfalls in income due to declining enrollments; (2) failure to put cost-cutting efforts into perspective and to choose the most feasible areas for cost savings; (3) failure to perform cash-benefit analyses of proposed fundraising projects; (4) failure to use other than checkbook balance money management methods for keeping tabs on the program's financial status; and (5) reliance on controls such as double signing of checks for financial security. Helpful resources to avoid money management pitfalls are cited and a Financial Management Assessment Guide is provided in the appendix. (Author/SS)

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The Pitfalls of Managing Money:
Common Problems and Practical Solutions

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Directors of school-age child care programs must be as effective at managing money as they are at caring for children. This lesson, had it not been learned too late, would have saved a local program. This program provided a wonderful environment for children -- the staff were creative and nurturing and the parents loved the experiences their children were having. However, the program was closed shortly after the original director left. Her replacement was outstanding with children, but she was totally unable to come to grips with managing money. After a few minor financial crises, the program was forced to close its doors.

Unfortunately, this scenario is not rare. Many school-age programs are plagued by faulty money management.

If child-care programs were generously funded, the consequences of ineffective money management would not be so severe. Most programs, however, are seriously underfunded and are barely able to pay their bills from month to month. The waste of a few dollars here and the loss of some expected income there can cause a program to delay or even cancel a pay day. If income and expenses are not carefully planned and controlled, a program can go out of business in a remarkably short period of time.

In helping programs with financial difficulties, I have noticed that a few problems occur time and again. Described below are the five most common of these money management pitfalls as well as some proposed remedies.

1. The Programmed-to-Fail Budget. In this situation the program adopts a budget for which projected income equals projected expenses. However, the budget will inevitably fail because faulty assumptions were made when projecting both income and expenses. The most common mistake here is to project income by multiplying weekly fees by the number of spaces in the program by the number of weeks the program is open. This method does project a program's maximum potential income if every space is filled for every week. But inevitably, a few children will leave the program in mid-year, and a lag of a week or more will occur before they are replaced; or a child will leave with two months remaining in the school year, and the space won't be filled; or a family will move out of town and neglect to pay their past due fees; or the welfare department will refuse to provide reimbursement for several snow days. A program that fails to account for

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shortfalls such as these when planning its budget will find that it never has quite enough money to pay all the bills.

For a new program it is difficult to predict what the shortfall in income will be. A program should certainly not count on receiving more than 90% of its potential income. If the program is just opening, it might be risky to expect more than 75% in the first year. For an older program, the shortfall can probably be reasonably estimated based on previous years' experiences. This can be done by calculating the maximum potential income the program could have received in the past twelve months and dividing this amount into the amount of income the center actually received for the twelve months. For example, if a program had a maximum potential income of $50,000 for last year, but only received $45,000, this means it only received 90% of its potential income ($45,000 ÷ $50,000 = .90 or 90%). For the coming year, this program should set its budget no higher than 90% of its potential fee income.

Programs often under-project expenses by failing to include certain line items altogether. Most frequently neglected are expenses for staff training, leave time, salary increases, fuel cost increases, and major appliance repairs. Certain of these expenses (such as fuel and repairs) cannot be ignored -- money must be found to pay for them. Others (such as training and salary increases) can be ignored, and frequently are, but only at the cost of severely undermining staff morale.

2. Penny Wise and Dollar Foolish Cost Cutting. A program short of funds often responds by vigorously cracking down on expenditures for supplies. Napkins are cut in half, drawing is done on recycled computer paper, and free materials are scrounged from everywhere.

This response to insufficient funds is typical, and typically it is ineffective. Even if the average program cut its supply costs in half (which would begin to have a noticeable impact on curriculum quality), the net effect would be only to reduce the program's overall costs by about 1%. This does not mean that programs should not try to save money on supplies. Certainly all programs have an obligation to parents to keep costs as low as possible. The danger, however, is that the director and staff will work so hard on scrounging materials and limiting other activities that they will begin to think they are doing all they can to solve their money problem. In other words, they will be distracted from effectively addressing the problem.

To put cost cutting efforts into perspective, it is helpful to analyze the savings potential of each budget item (such as in the example in Exhibit A below). First, the annual amount allotted for each line item in the budget should be listed. Then the percent that each line item would have to be cut in order to save $1000 per year should be calculated. This is done by dividing $1000 by the amount of each line item. For example, in Exhibit A, the line item "Staff-Salaries" would have to be cut by 2.9% ($1000 ÷ $34,500) to save $1000.

Exhibit A

ABC AFTER-SCHOOL PROGRAM COST SAVINGS ANALYSIS

Budget Item	Annual Budget Amount	% of Reduction To Save $1000
Staff Salaries	$34,500	2.9%
Administrative Salaries	20,000	5.0
Curriculum Equipment and Supplies	3,000	33.0
Office Supplies and Equipment	2,000	50.0
Nutrition	15,000	6.5
Occupancy	15,000	6.7
Health	1,500	66.7
Transportation	4,000	25.0
Training	2,500	40.0
Social Services	2,000	50.0
Miscellaneous	1,000	100.0

A quick review of the resulting figures will identify those areas in which significant cuts can be made without a corresponding dramatic and negative impact on the program. For example, the ABC After-School Program would have to cut the "Social Services" line item by 50%, the "Training" line item by 40%, or the "Health" line item by 67% to save $1000. Obviously, cuts of this magnitude would dramatically alter these aspects of the program. On the other hand, there are four line items -- "Staff Salaries," "Administrative Salaries," "Nutrition," and "Occupancy"-- which would be reduced by less than 7% if $1000 were cut from them. These are clearly areas where ABC's staff should concentrate cost savings efforts in order to have the least adverse impact on the program.

By going through this process, program staff quickly identify three or four areas in which cost cutting is most feasible. Unfortunately, this process will not provide directions on how to make the actual cuts: charts or formulas do not offer a panacea for difficult decisions.

3. The Fruitless Fundraiser. To generate extra funds, programs often instigate fundraising projects which produce a limited financial return for a considerable time and energy expenditure. For example, one program sponsors a fair every year. This past year the fair netted $725 after expenses. To earn this amount, parents and staff donated over $100 in cash and 500 hours in labor. If, instead, each parent had donated only 7%, the center would have raised as much money with no effort.

Before engaging in any fundraising project, a program should perform a cash-benefit analysis. First, estimate the maximum amount of money the project could yield, after expenses. Then estimate the number of staff and volunteer hours required to carry out the project. Finally, divide the dollars by the hours. If the result is less than $10 per hour, the project is probably not worth the effort, from $10-$25 per hour, it is of marginal value, but above $25 per hour, it is clearly worthwhile. Really successful fundraisers have been known to yield over $100 per hour.

4. Checkbook Balance Money Management. In this situation the program director controls income and expenses solely by observing the checkbook

balance. If the checkbook balance is high, the director freely spends money. If the balance is low, the director spends money cautiously and works hard to cut costs. If the balance is in the red, the director launches a fundraising project.

Such a casual day to day form of money management could have disastrous consequences for the average child care program. A program could be deeply in debt but still have a positive checkbook balance because several major purchases made on credit have yet to be paid. This pitfall could result in the program being forced to raise fees mid-year if no funds are set aside in the fall to cover high heating costs in the winter. In other cases, the director may simply run short of money at the end of every month without knowing why or what to do about it.

To effectively keep a handle on a program's financial status, a director must know much more than how much money is in the checking account. The director must know how much money has been expended on each budget item, how much income has been received, whether these expense and income amounts are in line with what was budgeted, and whether sufficient funds are available for upcoming major expenses. This information can all be obtained by preparing a monthly status report. An example of such a report is shown in Exhibit B.

Exhibit B

ABC AFTER-SCHOOL PROGRAM MONTHLY STATUS REPORT

As of June 30

	Actual Activity To Date	Projected Activity To Date	Percentage of Target Achieved
Income:			
Parent Fees	15,000	14,500	103
Title XX	11,760	13,250	89
Food Program	5,550	5,700	97
United Way	5,250	5,250	100
Fundraising	40	400	10
Total Income	37,600	39,100	96
Expenses:			
Salaries	20,810	20,100	101
Substitutes	1,680	1,400	120
Fringe	3,260	3,200	102
Legal and Audit	600	800	75
Training	150	300	50
Rent	2,550	2,550	100
Utilities	300	350	86
Food	5,700	5,600	102
Supplies	1,200	1,150	104
Insurance	250	250	100
Loan	900	900	100
Total Expenses	36,400	37,100	101
Balance	+200	+2,000	10

The monthly status report can be relatively easy to prepare and interpret, and it provides invaluable information. The report format features a vertical list on the lefthand side with all income and expense line items from the budget. This list is followed by three horizontal columns of figures. In the first column, headed "Actual Activity To Date," are recorded the total income and total expenditure figures for each budget item as of the last day of the month being reviewed (the closing date). For example, in the report in Exhibit B, $15,000 in parent fees had been received and $20,810 in staff salaries had been expended as of June 30. These figures should be readily available from the program's accounting records. (To simplify the preparation of status reports, one account in these records should be set up for each budget item.)

In the second column, headed "Projected Activity To Date," is recorded the cumulative amount the program had planned in the budget to have received or expended as of the closing date. ABC After-School Program had projected receiving $14,500 in parent fees and expending $20,600 in staff salaries as of June 30. These projections are derived from the budget. The easiest way to do this is to divide each budget item by 12 to arrive at a monthly figure. This figure is then multiplied by the number of months that have passed in the budget year. In the report below, the "Projected" figure for rent is $2550, or $425 per month times 6 months. For certain budget items, projections cannot be made so easily. For programs in the northern part of the country, utility expenses are seldom the same every month as heating costs soar in the winter. Similarly, parent fees and staff salaries may dip in the summer months when enrollments decline. For variable items such as these, it may be necessary to project income or expenses month by month, based on experiences from previous years.

In the third column, headed "Percent of Target Achieved", is recorded the percent of the projected amount that the program actually received or expended for each budget item. As of June 30, ABC After-School Program had received only 89% of its projected Title XX income and had spent 101% of its projected salary expenses. The percentage figure is computed by dividing the actual amount by the "Projected" amount ($11,760 ÷ $13,250 = 89%).

There are a number of points to check in reviewing the monthly status report. First, of course, one should check the bottom line -- the "Balance" (calculated by subtracting "Total Expenses" from "Total Income"). In the ABC After-School Program example there is a positive balance of $200 as of June 30. This is bad news since the projected balance was $2000. This means that not enough money has been set aside to cover future expenses. Once a problem is found, the next step is to trace the cause by reviewing the "Percent" column. The objective here is to find income items that are significantly below 100%. In the example Title XX income (80%) and fundraising income (19%) are both far too low, and substitute expenses (120%) are running far too high.

With this report the director has discovered that even though there is money in the checkbook, there is a serious problem developing. The director is also aware that correction of this situation demands a focus of attention on the problems associated with Title XX, fundraising, and substitutes. In addition, he or she can see that small surpluses are accumu-

lating in certain expense items ("Legal and Audit," "Training," and "Utilities") which could be utilized to partially offset the deficits.

5. The False Sense of Security. In an effort to safeguard a program's funds, the program's board of directors may require that every expenditure be approved by the board and that every check be signed by two designated individuals. Controls such as these may seem to be foolproof. In practice they are often foolhardy. To be effective, the two signature procedure requires that both individuals signing any check review background documentation to be satisfied that the expenditure is appropriate. More often than not, the second person signing the checks automatically signs them assuming that the first person has already checked them out. The two signature procedure can also be inefficient. If both signers are not located at the program site much time can be wasted chasing after the second person. In cases where potential signers are unavailable, major payments or a payroll can be delayed. Some programs circumvent this problem by having one party sign a number of blank checks in advance. This, of course, undermines the safeguarding aspect of the system.

Having all expenditures approved by the board can also be counterproductive. It deflects valuable board time and energy from crucial policy making and evaluative functions. Instead of developing a sliding fee scale policy, the board debates what brand of construction paper to purchase. Just as importantly, in focusing on this type of detailed decision making, the board can undermine staff commitment and leadership. The message conveyed to the director and teachers is that they are not trusted and that their function is simply to carry out orders from above.

The biggest danger of both of these safeguards is that they provide a false sense of security. The appearance, but not the reality, of security results. To provide effective security a number of approaches can be implemented:

All money coming into the program should be documented with duplicate copies of prenumbered receipts.

All expenditures should be made with prenumbered checks and a file maintained with back-up invoices, receipts, or explanations for each check.

The checkwriting function should be separated from the bookkeeping and checkbook balancing functions.

Two signatures should be required on all purchases with the limit clearly established by the board. (Some public and private funding organizations may, of course, require two signatures on all checks.) In addition, two signatures should be required on all withdrawals from savings accounts.

The board should regularly review monthly status reports to seek explanations for any expense items that are exceeding budgeted amounts.

Some Helpful Resources

A number of resources are now available to help programs avoid money management pitfalls. Five of the most relevant of these resources

are listed below. The manual by Gross and Warshauer is especially comprehensive and practical in describing effective practices and procedures. The next three are useful as guides for developing accounting systems and statements. The last resource, Child Care Information Exchange, is a bimonthly management magazine for child care directors.

Atkinson, Jonathon. Day Care Accounting and Day Care Costs. Gryphon House, P.O. Box 217, Mt. Ranier, MD 20822.

Bennett, Paul. Up Your Accountability. Taft Products, Inc., 1000 Vermont Ave., NW, Washington, DC 20005.

Gross, Malvern and William Warshauer. Financial and Accounting Guide for Nonprofit Organizations (3rd edition). John Wiley and Sons.

Jones, Robert E. Dollars and Sense. Welfare Research, Inc. 112 State Street, Albany, New York 12207.

Child Care Information Exchange, 70 Oakley Road, Belmont, MA 02178. (Also available from this source is a 16-page booklet, "Reprint #3: Money Management.")

APPENDIX

Financial Management Assessment Guide

Developed by the
Child Care Information Exchange

The soundness of a program's financial management system is determined by the extent to which it meets these criteria:

Security -- The system must provide safeguards against accidental or fraudulent loss of assets as well as insure that all financial obligations are met.

Efficiency -- The system must minimize time wasted on unnecessary paper work and procedures.

Effectiveness -- The system must provide accurate information to decisionmakers on a timely basis.

The following questions are designed to be used as guides for assessing whether the major components of your program's financial managment system meet these criteria.

Establishing the Budget

1. Is the budget used as a means of implementing the program's goals?
2. Does the budget make allowances for unforeseen expenses and under-enrollments?
3. Does the budget provide for staff development, staff benefits, leave time, salary increases?

Developing the Fee Schedule

5. Are fees set high enough to meet the budget?
6. Does the fee schedule make allowances for a family's ability to pay?
7. Have fee policies dealing with expected contingencies been developed and publicized?

Receiving Money

8. Are all monies received documented with duplicate copies of prenumbered receipts?
9. Are all monies received promptly deposited into the organization's bank account?
10. Have procedures been established for collecting overdue payments?
11. Is fidelity insurance carried on all individuals handling the organization's money on a regular basis?

Spending Money

12. Are all disbursements made by prenumbered checks?
13. Are all disbursements clearly documented?
14. Are two signatures required on large checks and on all withdrawals from savings accounts?
15. Is the checkbook maintained by the director or other staff member on site?
16. Are petty cash disbursements kept to a minimum and carefully documented?

Keeping Records

17. Is the program's accounting system appropriate to its needs?
18. Is information on income and expenses recorded in such a form that it can be applied directly in preparing tax reports, grant claims, monitoring reports, and annual budgets?
19. Is bookkeeping performed by someone other than the person(s) who receive money, write checks, and handle petty cash?
20. Is bookkeeping performed by someone other than the director?
21. Are records maintained of the program's assets and liabilities -- major equipment and appliances, savings accounts, outstanding loans, etc?
22. Are bookkeeping records regularly reviewed for accuracy?

Monitoring Financial Status

23. Does the director (and board) regularly monitor the financial position of the program by analyzing monthly status reports?
24. Does the director (and board) regularly project the cash flow position of the program for the coming 6-12 months?
25. Does an outside accountant perform an annual financial audit?

Filing Reports and Paying Taxes

26. Is a written schedule of reports due to public and private agencies and parties within the organization prepared and adhered to?
27. Are tax payments made when required?

Making Ends Meet

28. In cutting costs is attention focused on areas where potential savings are the greatest?
29. In raising funds are projects selected which raise the most funds for the least effort?
30. Is fundraising utilized to supplement the regular operations of the program rather than to enable the program to meet its basic operating costs?